

1966

AR45



file



CROWS NEST INDUSTRIES LIMITED

(Formerly The Crow's Nest Pass Coal Company, Limited)

Established 1897

Including Wholly-Owned Subsidiary Companies



THE CROW'S NEST PASS ELECTRIC LIGHT & POWER
COMPANY, LIMITED

MORRISSEY, FERNIE & MICHEL RAILWAY COMPANY

THE CROW'S NEST PASS OIL & GAS COMPANY, LIMITED

FERNIE EQUIPMENT COMPANY LIMITED

THE TRANSPACIFIC EXPORT CORPORATION

KNIGHT LUMBER COMPANY LIMITED

E. C. LETCHER LUMBER COMPANY LIMITED

EAST KOOTENAY LUMBER COMPANY LIMITED

GOLD CREEK TIMBER COMPANY LIMITED

ST. MARYS LUMBER CO. LTD.

BALMER MINE LIMITED

CROWS NEST FOREST PRODUCTS COMPANY LIMITED

HEAD OFFICE: FERNIE, BRITISH COLUMBIA

70th ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 1966

Board of directors

THOMAS F. GLEED, *Seattle*

THOMAS G. EWART, *Calgary*

HENRY C. JUDD, *Menlo Park*

JOHN W. PITTS, *Vancouver*

GEORGE V. POWELL, *Seattle*

F. DREWE PRATT, *Vancouver*

D. E. SKINNER, *Seattle*

Director emeritus

CHARLES O. JENKS, *St. Paul*

Officers

THOMAS F. GLEED, *Chairman and President*

WILLIAM R. PRENTICE, *Executive Vice-President*

JAMES E. MORRIS, *Vice-President*

JOHN F. CLEEVE, *Vice-President*

Auditors

CLARKSON, GORDON & CO., *Calgary*

Transfer agents

CANADA PERMANENT TRUST COMPANY, *Toronto*

BANKERS TRUST COMPANY, *New York*

Registrars

NATIONAL TRUST COMPANY, LIMITED, *Toronto*

MANUFACTURERS HANOVER TRUST COMPANY,
New York



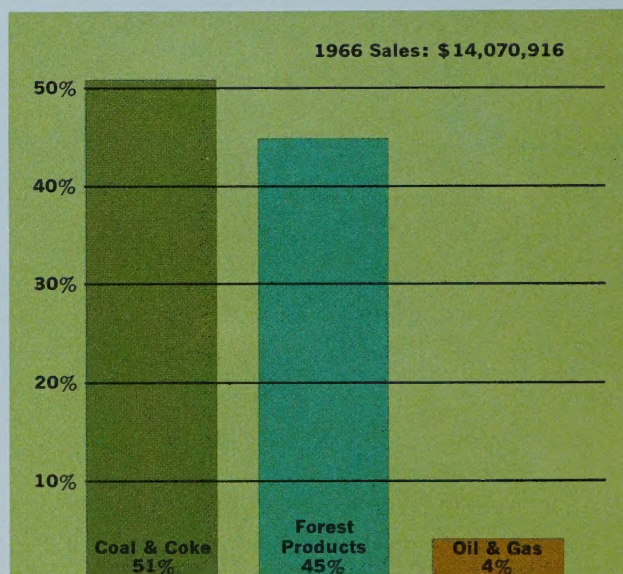


Year of Development Work Sets Base for Future Growth

The year 1966 required a major concentration of the Company's efforts and financial resources on the development and proving of a major new coal mine and the related planning and engineering studies for the economical shipping and loading of vastly increased quantities of coal. This development program was carried out with the close attention and co-operation of the Company's domestic and export customers and attracted wide attention from the management of companies in related industries in both the United States and Japan.

At the same time, a planning and engineering program leading to greater utilization of the Company's forest resources has been carried out by the management of the Company's forest products division and consultants. Studies have been made to determine the best site for a new integrated mill operation and the engineering is well advanced for the first phase of this program, a combined sawmilling and plywood plant.

This year of intensive development work will enable the Company to move ahead in its role of growing with British Columbia as the major diversified industry of the East Kootenay region.





CROWS NEST INDUSTRIES LIMITED
AND WHOLLY-OWNED SUBSIDIARY COMPANIES



Five-year summary of comparative highlights

	1966	1965	1964	1963	1962
Sales of all products.....	\$14,070,916	\$13,072,834	\$ 8,868,843	\$ 8,580,081	\$ 8,260,924
Production — coal (tons).....	837,460	767,035	834,234	756,284	732,789
Production — coke (tons).....	154,999	142,468	131,689	134,370	136,124
Production — breeze (tons).....	16,544	15,028	12,518	11,395	9,318
Production — Lumber (fbm).....	68,813,323	68,375,793	24,275,253	17,435,569	15,463,727
Production — oils (bbls).....	170,008	182,933	224,063	230,492	224,314
Net Earnings.....	\$ 554,512	\$ 1,085,898	\$ 1,061,762	\$ 720,389	\$ 508,377
Net Earnings per share.....	77¢†	\$1.39	\$1.37	93¢	65¢
Dividends declared†.....	\$ 540,619	\$ 551,756	\$ 535,340	\$ 549,503	\$ 461,151
Dividends per common share.....	75¢	75¢	75¢	75¢	60¢
Depreciation and depletion.....	\$ 1,318,585	\$ 1,184,957	\$ 795,570	\$ 773,931	\$ 744,580
Capital expenditures.....	\$ 1,803,848	\$ 2,848,548	\$ 2,518,488	\$ 510,036	\$ 1,262,015
Working capital.....	\$ 888,041	\$ 1,246,482	\$ 2,192,182	\$ 2,109,941	\$ 2,048,775
Common shareholders' equity†.....	\$10,235,615	\$10,146,721	\$ 9,569,615	\$ 9,044,193	\$ 9,589,430
Equity per common share†.....	\$14.12	\$14.12	\$13.38	\$12.65	\$12.48
Number of employees at year-end.....	830	935	823	754	742
Number of shareholders at year-end					
Canadian.....	364	311	247	201	190
Other.....	275	314	355	403	442
Number of common shares outstanding at year-end.....	786,725	780,475	777,170	777,170	777,100
Percentage held by Canadians.....	28%	22%	17%	12%	12%
Percentage held by Subsidiary Companies.....	8%	8%	8%	8%	1%
Other.....	64%	70%	75%	80%	87%

NOTE: † Excluding shares held by subsidiaries.



Management's report to the shareholders

Expansion of our exploration, mining, sales, and transportation programs aimed at vastly enlarging our coal exports to Japan was the major focus of management and financial efforts at Crows Nest during 1966.

Sales of all products increased approximately \$1 million to a total of \$14,070,916 for the year. Net earnings for 1966 were \$554,412 compared to \$1,085,898 in 1965, due to continuing heavy development costs and a substantial reduction in special credits reflected in operating profits of the preceding two years. The 1966 profit figures include \$85,329 resulting from insurance recovery from a sawmill fire. Similar non-recurring capital gains in 1965 from sale of securities and a damage settlement totaled \$597,035.

Your Company takes pride in having paid dividends continuously since 1918 and dividend payments to common shareholders in 1966 amounted to 75¢ per share.

Continued interest of the Japanese steel mills in our premium-grade, low-volatile coal was confirmed by a new two-year interim contract for the period ending March 31, 1969 calling for 400,000 tons of Balmer coal at a premium price. This is the maximum export allowed under present Canadian subvention levels.

The Company made substantial progress in its program to expand exports to Japan to two-million or more tons per year under a long-term contract, and

its ability to mine and ship this quantity, without continuing dependence on government subsidy, was confirmed by a series of mining, transportation, marketing, and financial studies by consultants.

The drilling and exploration program started in 1964 has proven reserves of 75 million tons of Balmer coal, more than the total volume of coal mined by the Company since its inception in 1897.

Two major rock tunnels were driven into the Balmer seam to prove mineability and much of the engineering for development of Balmer mine and related facilities has been completed.

The government of British Columbia has just announced it will lead development of a new high-speed bulk loading terminal at Roberts Bank, south of Vancouver. Such modern port facilities, coupled with the introduction of unit trains to haul coal from mine to dock, are essential elements in our program to reduce overall transportation costs.

Management has now completed the studies and engineering required to achieve the efficiency and cost reductions enabling us to deliver this premium coal to market at competitive world prices.

At this writing, negotiations are underway with a major company in the U.S. for increased development of the coal resources on our property.

Sales of forest products continued to account for slightly less than half the total annual sales of Crows Nest Industries and your Company is continuing to develop its Forest Products Division toward greater utilization of the timber resources of the east Kootenays. In addition to the harvest from its own 250,000 acres, Crows Nest is now responsible for a substantial annual cut of the Fernie and Cranbrook Sustained Yield Units.

Management's confidence in the potential of our area of British Columbia was graphically reinforced during the year by the active interest of a number of other companies in developing the resources of the east Kootenays.

A handwritten signature in dark ink, appearing to read "Thos. F. Gleed".

THOS. F. GLEED, *Chairman and President.*

STATEMENT 1

ASSETS**CURRENT:**

	1966	1965
Cash.....	\$ 255,290	\$ 191,879
Marketable securities at cost, which approximates market value.....	21,096	123,125
Accounts receivable.....	1,418,072	1,124,023
Claim receivable.....	—	225,000
Income taxes refundable.....	—	96,703
Inventories valued at the lower of cost or market.....	3,281,059	2,725,950
Prepaid expenses.....	13,387	71,004
Total current assets.....	<u>4,988,904</u>	<u>4,557,684</u>

FIXED (Note 1):

Mines, real estate, plant and equipment less accumulated depreciation of \$14,898,011 (1965 – \$13,888,606).....	7,132,045	6,598,679
Petroleum and natural gas interests – Acquisition and productive development costs less accumulated depletion of \$2,432,649 (1965 – \$2,390,850).....	1,051,807	965,886
Production equipment less accumulated depreciation of \$689,948 (1965 – \$655,323).....	516,155	492,886
Timber cutting rights less accumulated depletion of \$365,531 (1965 – \$160,589).....	1,483,262	1,640,555
	<u>10,183,269</u>	<u>9,698,006</u>

OTHER:

Mortgages receivable.....	68,628	90,001
Refundable deposits.....	276,473	294,805
Deferred mine and other development expenses.....	508,779	777,331
Special refundable tax.....	34,989	—
	<u>888,869</u>	<u>1,162,137</u>
	<u>\$16,061,042</u>	<u>\$15,417,827</u>

See accompanying notes to consolidated financial statements.

CROWS NEST INDUSTRIES LIMITED
(Incorporated under the laws of Canada)
AND WHOLLY-OWNED SUBSIDIARY COMPANIES



Consolidated Balance Sheet December 31, 1966 and 1965

LIABILITIES	1966	1965
CURRENT:		
Bank loans and overdraft.....	\$ 2,298,257	\$ 1,707,525
Accounts payable and accrued charges.....	1,235,581	1,192,102
Income taxes payable.....	62,395	—
Other taxes payable.....	117,963	81,408
Instalments of loans payable due within one year.....	386,667	330,167
Total current liabilities.....	<u>4,100,863</u>	<u>3,311,202</u>
LOANS PAYABLE (Note 2).....	<u>314,667</u>	<u>643,673</u>
DEFERRED INCOME TAXES (Note 3).....	<u>1,409,897</u>	<u>1,316,230</u>
SHAREHOLDERS' EQUITY:		
Capital (Note 4) –		
Authorized –		
25,000 3% cumulative redeemable preferred shares of \$100 par value each		
1,250,000 common shares of \$8 par value each		
Issued –		
786,725 common shares (1965 – 780,475).....	6,294,667	6,244,667
Contributed surplus (Statement 2).....	45,000	20,000
Capital surplus (Statement 2).....	1,300,000	1,300,000
Earned surplus (Statement 2).....	3,371,432	3,357,539
	<u>11,011,099</u>	<u>10,922,206</u>
Less 62,050 shares of parent owned by subsidiary at cost.....	775,484	775,484
	<u>10,235,615</u>	<u>10,146,722</u>
On behalf of the Board:		
T. F. GLEED, Director.		
F. D. PRATT, Director.		
	<u>\$16,061,042</u>	<u>\$15,417,827</u>



Consolidated statement of earned surplus
for the years ended December 31, 1966 and 1965

	1966	1965
Balance, beginning of year.....	\$ 3,357,539	\$ 2,923,397
Add:		
Net profit for the year and special credits.....	554,512	1,085,898
Transfer of balance of surplus allocated for emergency and capital expenditures.....	—	1,200,000
	<u>3,912,051</u>	<u>5,209,295</u>
Deduct:		
Transfer to capital surplus resulting from redemption of preferred shares.....	—	1,300,000
Dividends paid –		
On preferred shares.....	—	14,425
On common shares.....	540,619	537,331
	<u>540,619</u>	<u>1,851,756</u>
Balance, end of year.....	<u>\$ 3,371,432</u>	<u>\$ 3,357,539</u>
 Statement of contributed surplus		
Balance, beginning of year.....	\$ 20,000	\$ 3,475
Excess of proceeds of sales of common shares during the year over par value thereof.....	25,000	16,525
Balance, end of year.....	<u>\$ 45,000</u>	<u>\$ 20,000</u>
 Statement of capital surplus		
Transfer from earned surplus resulting from redemption of preferred shares.....	—	\$ 1,300,000
Balance, end of year.....	<u>\$ 1,300,000</u>	<u>\$ 1,300,000</u>
 <i>See accompanying notes to consolidated financial statements.</i>		



Consolidated statement of profit and loss
for the years ended December 31, 1966 and 1965

	1966	1965
Sales of coal, coke, petroleum and forest products.....	\$14,070,916	\$13,072,834
Less operating expenses.....	11,822,659	11,011,149
Operating profit before the following deductions.....	2,248,257	2,061,685
Deduct:		
Directors' fees and remuneration.....	49,600	46,400
Interest on loans payable.....	129,943	90,247
Depreciation.....	1,064,562	963,728
Depletion.....	254,023	221,229
Exploration and development expenditures written off.....	157,609	73,617
	1,655,737	1,395,221
Operating profit.....	592,520	666,464
Add interest, dividends and other income.....	125,869	108,646
Profit before income taxes.....	718,389	775,110
Income taxes (Note 3).....	249,206	286,247
Profit for the year before special credits.....	469,183	488,863
Excess of insurance proceeds received over net book value of assets destroyed by fire.....	85,329	—
Gain on sales of investments.....	—	372,035
Damages recoverable on expropriation of property.....	—	225,000
Net profit for the year and special credits.....	\$ 554,512	\$ 1,085,898
<i>See accompanying notes to consolidated financial statements.</i>		



**Consolidated statement of source and application of funds
for the year ended December 31, 1966**

SOURCE OF FUNDS:

Operations –

Net profit for the year and special credits.....	\$ 554,512
--	------------

Add amounts which do not require an outlay of funds –

Depreciation and depletion.....	1,318,585
---------------------------------	-----------

Deferred income taxes.....	93,667
----------------------------	--------

Total funds from operations.....	1,966,764
----------------------------------	-----------

Proceeds from issue of common shares.....	75,000
---	--------

Total funds provided.....	2,041,764
---------------------------	-----------

APPLICATION OF FUNDS:

Expenditures on properties, plant and equipment

and other assets (net).....	1,530,580
-----------------------------	-----------

Decrease in loans payable.....	329,006
--------------------------------	---------

Dividends to shareholders.....	540,619
--------------------------------	---------

Total funds applied.....	2,400,205
--------------------------	-----------

Decrease in working capital.....	\$ 358,441
----------------------------------	------------

See accompanying notes to consolidated financial statements.

Auditors' Report

To the Shareholders of
Crows Nest Industries Limited

We have examined the consolidated balance sheet of Crows Nest Industries Limited and its wholly-owned subsidiary companies as at December 31, 1966 and the consolidated statements of profit and loss, earned surplus, contributed surplus, capital surplus and source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. In our opinion the accompanying consolidated bal-

ance sheet and the consolidated statements of profit and loss, earned surplus, contributed surplus, capital surplus and source and application of funds present fairly the financial position of Crows Nest Industries Limited and its wholly-owned subsidiary companies at December 31, 1966, the results of their operations and the sources and applications of funds for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change described in Note 1 which change we approve.

Calgary, Alberta.
March 10, 1967.

CLARKSON, GORDON & CO.
Chartered Accountants.

Notes to consolidated financial statements
December 31, 1966



1. Accounting practices:

The companies follow the practice of capitalizing the acquisition costs of oil properties and the expenditures on productive wells, and of expensing exploration charges, non-productive development expenses, carrying charges on non-producing properties and the cost of leaseholds and reservations surrendered. Depletion of producing oil lands and well development expenditures is provided on the unit of production method based on estimated proven reserves of oil and gas.

In previous years expenditures on productive wells were amortized against income as incurred and are included with accumulated depletion in the accompanying balance sheet. During the five years prior to 1966 such expenditures were not material in amount.

Based on the Company's estimate of recoverable reserves of coal, a charge for depletion would be immaterial in amount and accordingly no provision for depletion of coal properties is included in the accounts.

Depreciation of fixed assets is provided on the reducing balance method at rates designed to amortize the costs of these assets over their estimated useful lives.

2. Loans payable:

4½ % and 5½ % Coal Production Assistance Act Loans	\$463,334
6% Bank loan	238,000
	<hr/> 701,334
Less instalments due within one year included in current liabilities	386,667
	<hr/> <u>\$314,667</u>

The Coal Production Assistance Act Loans are secured by chattel mortgages on certain of the companies' mining assets and are repayable at 30¢ per ton of coal produced from certain mines with a minimum payment in 1967 of \$266,667.

The bank loan is payable in monthly instalments by a subsidiary company and is secured by the hypothecation of 62,050 shares of the parent company owned by the subsidiary and by the assignment of the subsidiary company's interests in certain producing oil and gas properties.

3. Income taxes:

Income taxes charged against 1966 income include a deferred amount of \$93,667 as a result of claiming for tax purposes amounts greater than the depreciation charged in the companies' accounts. This amount is applicable to those future years in which the amounts claimed for tax purposes will be less than the depreciation recorded in the accounts and is accordingly included in the balance sheet in the item "Deferred income taxes".

4. Capital stock:

6,250 common shares were issued during the year to an officer on exercise of options for \$75,000 cash. The par value of the shares issued, \$50,000, was credited to share capital account and the balance to contributed surplus.

Options have been granted to officers and employees to purchase 7,000 common shares at prices varying from \$13.00 to \$20.00 per share which are exercisable in annual instalments on a cumulative basis while in the employ of the Company. A further 7,750 shares are reserved under the Company's stock option plan.



Recreational and Scenic Advantages are Valued by our Employee Family

It's people who keep Crows Nest Industries growing and it's the natural advantages of our mountain-rimmed valley setting which help the Company keep its people happy.

The aerial photograph on the opposite page shows the City of Fernie, looking west from the site of a proposed 300-home subdivision.

The immediate area offers year-round opportunities for outdoor activity. There is a modern chalet and a 4,500-foot T-bar lift at the Snow Valley ski hill, three miles south of Fernie. There is a nine-hole golf course in Fernie and the whole region abounds with natural camping and picnic sites and the Provincial Government has developed a major link in its chain of recreational campgrounds at Fernie Mountain.

The region is one of the best big game hunting dis-

tricts in British Columbia, with Rocky Mountain Bighorn sheep, moose, elk, mountain goat, deer, grizzly and black bear. Sharp-tailed grouse provide good sport and the area abounds with Rainbow, Cut-throat and Eastern Brook trout as well as Dolly Varden and Kokanee.


A four-way partnership involving three levels of government and the Company is working on plans to create new residential communities to replace the mining towns of Michel and Natal which have marked disadvantages resulting from their locations in the narrow end of the Crowsnest Pass valley.


The Company's head office at Fernie is centrally located between the mining and sawmilling operation at Michel and Natal at the northern end of the valley and the major lumbering and milling operations at Elko in the southern part of the valley.





Property Map of Crows Nest Industries Limited

LEGEND

 CROWS NEST INDUSTRIES
PROPERTY (251,283 ACRES)

 FERNIE S.Y.U. BOUNDARY

 RAILROADS

 PROPOSED NEW RAILROAD

